



The Halloween effect in European sectors

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Highlights

- We document the existence of a strong seasonal effect on returns of 37 stock indices.
- Stocks deliver returns close to zero and often negative returns during summer months.
- In 23 indices, the difference to winter months is statistically significant.
- The effect cannot be accounted for by classical seasonal incidences.
- The Halloween strategy produces results that outperform the B&H strategy.

Abstract

We present economically and statistically empirical evidence that the Halloween effect is significant. A trading strategy based on this anomaly works persistently and outperforms the buy and hold strategy in 8 out of 10 indices in our sample.

We present evidence that the Halloween strategy works two out of every three calendar years and if an investor followed it “blindly”, it would yield an annual average excess of return of approximately 2.4%, compared to the buy and hold strategy and further ensure a significant reduction in risk in all indices (around 7.5% on an annual basis).

We have considered several possible explanations for the anomaly, however, none was able to fully justify the seasonal effect. We suggest that a possible explanation may be related to negative average returns during the May–October period, rather than superior performance during the November–April period.



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JEL classification

G10; G14

Keywords

Halloween effect; Market efficiency; Anomaly; Returns

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